GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1303
ANSWERED ON:03.03.2000
FINANCIAL REFORMS
ANANTA NAYAK

Will the Minister of FINANCE be pleased to state:

(a) whether Government propose to bring about financial reforms in the country;

(b) if so, whether the reform measures are also proposed to be introduced at the State level;

(c) if so, the guidelines sent to the State Governments; and

(d) the reaction of the State Governments thereto?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATIL)

(a), (b), (c) & (d): Financial reforms consist of measures designed to improve the efficiency and safety of institutions and markets, which constitute the financial system. Since the financial system is not confined to individual states, financial reforms apply to the whole country. The measures taken as part of the financial reforms initiated on the basis of the Report of the First Narasimham Committee on the Financial System (1991) included phased reduction in Statutory Liquidity Ratio and Cash Reserve Ratio, deregulation of interest rates, capital adequacy norms and norms relating to income recognition, asset classification and provisioning for bad debts. The measures based on the report of the Second Narasimham Committee on Banking Sector Reforms(1998) include phased introduction of risk weight for Government/approved securities, provisioning requirement for standard assets and increase in the minimum capital to risk-weighted assets ratio (CRAR) from 8 per cent to 9 per cent.Recent measures include the promulgation of the Recovery of Debts due to Banks and Financial Institutions (Amendment) Ordinance, 2000 aimed at facilitating speedier recovery of debt, and proposals made in the Union Budget for 2000-01 like reduction in the shareholding by Government in nationalised banks to 33 percent (without changing the public sector character of banks) so as to enable them to raise capital from the public and necessary changes in legislative provisions to accord necessary flexibility and autonomy to the Boards of Banks on the lines recommended by the second Narasimham Committee and constitution of a modified version of a Financial Restructuring Authority suggested by the Working Group on Restructuring Weak Public Sector Banks. Other measures having a bearing on the financial sector include the passing by Parliament of (I) Securities Laws (Amendment) Bill, 1999, incorporating derivative instruments in the definition of securities in the Securities Contracts (Regulation) Act, 1956 and
(ii) the Insurance Regulatory and Development Authority (IRDA) Bill which, inter alia opens up the insurance sector to private providers and allows foreign equity in domestic insurance companies, subject to a maximum of 26 per cent of the total paid-up capital.